

Kempen & Co. N.V.
 MeesPierson N.V.
 NIBStrating Financial Markets N.V.
 KBW Effectenbank N.V.
 F. van Lanschot Bankiers N.V.
 SNS Bank Nederland N.V.
 ABN AMRO Securities (USA) Inc.
 Lehman Brothers Inc.
 RBC Dominion Securities Corporation
 Smith Barney Inc.
 Alex. Brown & Sons Incorporated
 CS First Boston Corporation
 A.G. Edwards & Sons, Inc.
 Baring Securities Inc.
 Dean Witter Reynolds Inc.
 Barclays de Zoete Wedd Limited
 Cazenove & Co.
 NatWest Securities Limited
 Baring Brothers Limited
 Credit Lyonnais Securities
 Daiwa Europe Limited
 Morgan Grenfell & Co. Limited
 Banque Indosuez
 Morgan Stanley & Co. International Limited
 Banca Commerciale Italiana S.p.A.
 Bank Brussel Lambert N.V.
 Creditanstalt-Bankverein
 DG BANK—Deutsche Genossenschaftsbank

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BILLING CODE 8010-01-P

[Release No. 34-36411; International Series Release No. 874; File No. 600-20]

Self-Regulatory Organizations; International Securities Clearing Corporation; Notice of Filing of a Request for Extension of Temporary Registration as a Clearing Agency

October 25, 1995.

Notice is hereby given that on October 23, 1995, the International Securities Clearing Corporation ("ISCC") filed with the Securities and Exchange Commission ("Commission") an application pursuant to Section 19(a)(1) of the Securities Exchange Act of 1934 ("Act"),¹ to extend ISCC's temporary registration as a clearing agency for a period of twenty-four months or such longer period as the Commission deems appropriate.² The Commission is publishing this notice to solicit comments on the request for extension of registration from interested persons.

On May 12, 1989, the Commission granted the application of ISCC for registration as a clearing agency pursuant to Sections 17A and 19(a) of the Act³ and Rule 17Ab2-1(c) thereunder on a temporary basis for a period of eighteen months.⁴ At that

time, the Commission granted to ISCC a temporary exemption from compliance with Section 17A(b)(3)(C) of the Act which requires fair representation of its shareholders (or members) and participants in the selection of its directors and administration of its affairs.⁵ Since that time, the Commission has extended ISCC's temporary registration through November 30, 1995.⁶

One of the primary reasons for ISCC's registration as a clearing agency was to enable it to provide for the safe and efficient clearance and settlement of international securities transactions by providing links to centralized, efficient processing systems in the United States and in foreign financial institutions. ISCC continues to develop its capacity to offer these services.⁷

As a part of its temporary registration, ISCC has an exemption from Section 17A(b)(3)(C) of the Act due to ISCC's limited participant base.⁸ ISCC has represented to the Commission that it believes it still does not have a meaningful participant base with only thirty-seven of the forty-four ISCC members currently using ISCC services.⁹ This is an increase of seventeen active members since ISCC received its most recent registration extension in 1993. ISCC continues to believe that if its participants are given an ability to participate in the selection of the board of directors in accordance with Section 17A(b)(3)(C) of the Act, these

⁵ Currently, ISCC's Board of Directors is authorized for a maximum of twenty-two members. Twelve of those directors are selected from the general partners or officers of participants by ISCC's nominating committee. Two directors must be officers of ISCC. Eight directors are nominees of National Securities Clearing Corporation ("NSCC"), the sole shareholder of ISCC. Participants may submit names to ISCC's Nominating Committee by submitting a petition to ISCC's Secretary signed by the lesser of 5% of the participants or fifteen participants. If a participant nominates a candidate for participant director, ballots are sent out to all participants to vote in accordance with their usage of ISCC's system. NSCC will vote its shares to elect the participant directors selected by the participants.

⁶ Securities Exchange Act Release Nos. 28606 (November 16, 1990), 55 FR 47976; 30005 (November 27, 1991), 56 FR 63747; and 33233 (November 22, 1993), 58 FR 63195.

⁷ For example, ISCC has added three service providers, Standard Bank of South Africa, Westpac Custodian Nominees Limited of Australia, and Westpac Nominees-NZ-Limited, to its Global Clearance Network Service to provide settlement and custody services in South Africa, Australia, and New Zealand, respectively. Securities Exchange Act Release Nos. 35392 (February 16, 1995), 60 FR 10415 and 36339 (October 5, 1995), 60 FR 53447.

⁸ 15 U.S.C. § 78q-1(b)(3)(C) (1988).

⁹ Eleven of these members use ISCC's link with the London Stock Exchange. Three members use ISCC's link with CEDEL. Five members use ISCC's link with Euroclear. Thirty-two members use ISCC's Global Clearance Network Service.

participants will have an inordinate and unintended control of the nomination and voting processes. Accordingly, ISCC requests an extension of its registration approval with a continuation of this exemption.¹⁰

Interested persons are invited to submit written data, views, and arguments concerning the foregoing application. Such written data, views, and arguments will be considered by the Commission in granting registration or instituting proceedings to determine whether registration should be denied in accordance with Section 19(a)(1) of the Act.¹¹ Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street NW., Washington, D.C. 20549. Copies of the applicant and all written comments will be available for inspection at the Commission's Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549. All submissions should refer to File No. 600-20 and should be submitted by November 30, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-36409; File Nos. SR-NYSE-95-31; SR-PSE-95-25; SR-Amex-95-42; SR-Phlx-95-71]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Changes by the New York Stock Exchange, Inc., the Pacific Stock Exchange, Inc., the American Stock Exchange, Inc., and the Philadelphia Stock Exchange, Inc., To Add Two Positions and Exercise Limit Tiers for Qualifying Equity Option Classes and To Expand the Equity Option Hedge Exemption

October 23, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on September 26, October 5, October 16, October 17, 1995, respectively, the New York Stock Exchange, Inc. ("NYSE"), the Pacific Stock Exchange, Inc. ("PSE"), the American Stock Exchange,

¹⁰ *Supra* note 2.

¹¹ 15 U.S.C. § 78s(a)(1) (1988).

¹² 17 C.F.R. § 200.30-3(a)(16) (1994).

¹ 15 U.S.C. § 78s(b)(1) (1988).

17 CFR 240.19b-4 (1994).

¹ 15 U.S.C. 78s(a)(1) (1988).

² Letter from Julie Beyers, Associate Counsel, ISCC, to Christine Sibille, Senior Counsel, Office of Securities Processing, Division of Market Regulation, Commission (October 20, 1995).

³ 15 U.S.C. 78q-1 and 78s(a) (1988).

⁴ Securities Exchange Act Release No. 26812 (May 12, 1989), 54 FR 21691.

Inc. ("Amex"), and the Philadelphia Stock Exchange, Inc. ("Phlx") (collectively the "Exchanges"), filed with the Securities and Exchange Commission ("Commission") the proposed rule changes as described in Items I and II below, which Items have been prepared by the self-regulatory organizations. The PSE subsequently filed Amendment No. 1 to their proposed rule change on October 17, 1995.³ The Exchanges have requested accelerated approval of the proposals. The Commission is approving the proposals on an accelerated basis and soliciting comments.

I. Self-Regulatory Organizations' Statements of the Terms of Substance of the Proposed Rule Changes

The Exchanges propose to add two upper position and exercise limit⁴ tiers for those equity option classes that meet certain criteria for high liquidity in the underlying stocks. In addition, the Exchanges propose to expand the current equity option hedge exemption from twice to three times the standard or base position limit.⁵

The Exchanges request the Commission to find good cause, pursuant to Section 19(b)(2) of the Act, for approving the proposed rule changes prior to the thirtieth day after publication in the Federal Register.

II. Self-Regulatory Organizations' Statements of the Purpose of, and Statutory Basis for, the Proposed Rule Changes

In its filings with the Commission, the self-regulatory organizations included statements concerning the purpose of and basis for the proposed rule changes and discussed any comments they received on the proposed rule changes. The text of these statements may be examined at the places specified in Item

III below. The self-regulatory organizations have prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organizations' Statements of the Purpose of, and Statutory Basis for, the Proposed Rule Changes

1. Purpose

The Exchanges are proposing to add two new tiers to their current three tier position and exercise limits.⁶ The requested tiers are identical to the new tiers that the Commission recently approved for the Chicago Board Options Exchange, Inc. ("CBOE").⁷

The Exchanges propose to add two position and exercise limit tiers at 25,000 and 20,000 contract levels. The criterion to qualify for the proposed 25,000 contract limit will require that the underlying security must have at least 300 million shares outstanding with 75 million shares traded in the past six months, or have 100 million shares traded in the past six months. To qualify for the proposed 20,000 contract limit, the underlying security must have at least 240 million shares outstanding with 60 million shares traded in the past six months, or have 80 million shares traded in the past six months.

According to the Exchanges, the number of equity option classes currently listed that would qualify for either of these new higher position and exercise limit tiers is small. The NYSE has 11 options classes, the PSE has 30 options classes, the Amex has 62 options classes, and the Phlx has 16 options classes that would qualify for the 25,000 contract tier. Similarly, the NYSE has five options classes, the PSE has 13 options classes, the Amex has 28 options classes, and the Phlx has 11 options classes that would satisfy the 20,000 contract tier requirements.⁸

In addition to the proposed 25,000 and 20,000 contract tiers, the Exchanges are also proposing to expand the equity option position limit hedge exemption.⁹

This proposal is also identical to the CBOE's recently approved rule amendment.¹⁰ The exemption provides that the maximum allowable position where each option contract is hedged by 100 shares of stock or securities convertible into stock, will be three times instead of twice the standard or base limit currently provided.¹¹

The Exchanges are requesting approval of the proposed 20,000 and 25,000 position and exercise limit tiers for qualifying equity option classes and an expansion of the current equity option hedge exemption to three times the base position limit because the Exchanges strongly believe that the investing community will benefit from the rule proposals. In particular, according to the Exchanges, investors with sizable holdings, accounts, or assets who employ equity options to hedge large holdings, and who have found the existing equity option position limit tiers and hedge exemption to be too restrictive will be greatly benefited through the rule proposals. The Exchanges do not believe that the increased limits and expanded equity hedge exemption proposed herein will increase the risk of, or exposure to, market disruption resulting from the higher number of equity option contracts permitted to be under common control.

2. Statutory Basis

The Exchanges believe that the proposed rule changes are consistent with Section 6 of the Act in general, and furthers the objectives of Section 6(b)(5) of the Act in particular,¹² in that the proposals are designed to remove the impediments to and perfect the mechanisms of a free and open market and a national market system by providing investors with enhanced hedging capabilities.

B. Self-Regulatory Organizations' Statements on Burden on Competition

The Exchanges do not believe that the proposed rule changes will impose any burden on competition.

C. Self-Regulatory Organizations' Statements on Comments on the Proposed Rule Changes Received From Members, Participants, or Others

No written comments were either solicited or received.

¹⁰ See CBOE Approval Order, *supra* note 7.

¹¹ The Commission notes that the proposed increase in the maximum hedge exemption will apply to all position limit tiers, not just to the proposed 25,000 and 20,000 contract tiers.

¹² 15 U.S.C. 78f(b)(5) (1988).

³ See letter from Michael D. Pierson, Senior Attorney, Market Regulation, PSE, to Michael A. Walinskas, Branch Chief, Options Regulation, Division of Market Regulation, Commission, dated October 13, 1995 ("Amendment No. 1"). In Amendment No. 1, the PSE requested accelerated approval for their proposed rule change.

⁴ Positions limits impose a ceiling on the aggregate number of option contracts on the same side of the market that an investor, or group of investors acting in concert, may hold or write. Similarly, exercise limits impose a ceiling on the aggregate long positions in option contracts that an investor, or group of investors acting in concert, can or will have exercised within five consecutive business days.

⁵ The equity hedge exemption currently exempts certain specified equity options positions from the stated (or base) position limits where the option contracts are hedged by 100 shares of stock or securities convertible into such stock (or hedged by the same number of shares represented by an adjusted option contract), up to a maximum allowable position of twice the standard or base limit.

⁶ See NYSE Rules 704 and 705; PSE Rules 6.8 and 6.9; Amex Rules 904 and 905; and Phlx Rules 1001 and 1002.

⁷ See Securities Exchange Act Release No. 36371 (October 13, 1995) (File No. SR-CBOE-95-42) ("CBOE Approval Order").

⁸ The number of options classes listed on the Exchanges that would qualify for the two new position and exercise limit tiers should be considered in conjunction with the fact that the NYSE currently has 170 equity option classes listed, the PSE currently has 354 equity option classes listed, the Amex currently has 539 equity option classes listed, and the Phlx currently has 350 equity option classes listed.

⁹ See NYSE Rule 704(b)(ii); PSE Rule 6.8, Commentary .07; Amex Rule 904, Commentary .09; and Phlx Rule 1001, Commentary .07.

III. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule changes that are filed with the Commission, and all written communications relating to the proposed rule changes between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. § 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filings also will be available for inspection and copying at the principal offices of the Exchanges. All submissions should refer to File Nos. SR-NYSE-95-31, SR-PSE-95-25, SR-Amex-95-42, and SR-Phlx-95-71, and should be submitted by November 21, 1995.

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Changes

A. Description and Background

Since the inception of standardized options trading, the options exchanges have had rules imposing limits on the aggregate number of options contracts that a member or customer could hold or exercise. These rules are intended to prevent the establishment of large options positions that can be used or might create incentives to manipulate or disrupt the underlying market so as to benefit the options position. In particular, position and exercise limits are designed to minimize the potential for mini-manipulations¹³ and for corners or squeezes of the underlying market. In addition, they serve to reduce the possibility for disruption of the options market itself, especially in illiquid options classes.

In establishing position and exercise limits, the Commission has been careful to balance two competing concerns. First, the Commission has recognized that the limits must be sufficient to prevent investors from disrupting the market for the underlying security by acquiring and exercising a number of

options contracts disproportionate to the deliverable supply and average trading volume of the underlying security. At the same time, the Commission has realized that limits must not be established at levels that are so low as to discourage participation in the options market by institutions and other investors with substantial hedging needs or to prevent specialists and market makers from adequately meeting their obligations to maintain a fair and orderly market.¹⁴

In October 1980, the Commission approved proposed rule changes by several options exchanges to increase position and exercise limits from 1,000 to 2,000 contracts for all individual equity options classes.¹⁵ In conjunction with the approval, the Commission received commitments from the options exchanges to study the effects of the increased limits. The Commission indicated that the experience gained under the increased limits, if coupled with adequate monitoring and surveillance procedures, could serve as a basis for considering further position and exercise limit modifications.

In July 1983, the Commission approved a further increase in position and exercise limits for individual stock options based on a tiering approach.¹⁶ Limits for options on stocks with the greatest trading volume and public float were increased to 4,000 contracts and limits on all other options classes were increased to 2,500 contracts.¹⁷ In approving the increased limits under a two-tiered framework, the Commission noted that tiering was consistent with the gradual, evolutionary approach that the Commission and the exchanges have adopted in increasing position and exercise limits.

In 1985, the Commission approved a further increase in position and exercise limits for individual equity options. This approval extended the tiering approach commenced by the options

exchanges in 1983.¹⁸ The Commission noted in the 1985 Release that liberalizing position and exercise limits would further increase the potential depth and liquidity of the individual stock options markets without significantly increasing concerns regarding intermarket manipulations or disruptions of the market for the options or underlying securities.

Lastly, in December 1993, the Commission approved the Exchanges' existing position and exercise limit framework for individual equity options.¹⁹ Depending on certain criteria related to the trading volume of the underlying stock or a combination of both the trading volume and the number of shares outstanding of the underlying stock, the Exchanges' current position and exercise limits were established at levels of 10,500 contracts, 7,500 contracts, and 4,500 contracts.²⁰

The Exchanges proposed to add two position and exercise limit tiers at 25,000 and 20,000 contract levels. As stated above, the criterion to qualify for

¹⁸ See Securities Exchange Act Release No. 21907 (March 29, 1985), 50 FR 13440 (April 4, 1985) (order approving File Nos. SR-PSE-85-01, SR-Amex-84-30, and SR-Phlx-84-25) ("1985 Release"). The 1985 Release created a three-tiered system of position and exercise limits of 8,000, 5,500, and 3,000 contracts. To be eligible for the 8,000 contract limit an underlying security was required to have had either (i) trading volume of at least 40 million shares during the most recent six month trading period; or (ii) trading volume of at least 30 million shares during the most recent six month trading period and at least 120 million shares currently outstanding. To be eligible for the 5,500 contract limit an underlying security was required to have had either (i) trading volume of at least 20 million shares during the most recent six month trading period; or (ii) trading volume of at least 15 million shares during the most recent six month trading period and at least 40 million shares currently outstanding. All other options not meeting these requirements were subject to the 3,000 contract limits.

¹⁹ See Securities Exchange Act Release Nos. 33284 (December 3, 1993), 58 FR 65215 (December 13, 1993) (order approving File No. SR-NYSE-93-41); 33282 (December 3, 1993), 58 FR 65218 (December 13, 1993) (order approving File No. SR-PSE-92-38); 33285 (December 3, 1993), 58 FR 65201 (December 13, 1993) (order approving File No. SR-Amex-93-27); and 33288 (December 3, 1993), 58 FR 65221 (December 13, 1993) (order approving File No. SR-Phlx-93-07) (collectively "1993 Release").

²⁰ To be eligible for the 10,500 contract limit an underlying security must have either (i) trading volume of at least 40 million shares during the most recent six month trading period; or (ii) trading volume of at least 30 million shares during the most recent six month trading period and at least 120 million shares currently outstanding. To be eligible for the 7,500 contract limit an underlying security must have either (i) trading volume of at least 20 million shares during the most recent six month trading period; or (ii) trading volume of at least 15 million shares during the most recent six month trading period and at least 40 million shares currently outstanding. All other options not meeting these requirements are subject to the 4,500 contract limits.

¹³ Mini-manipulation is an attempt to influence, over a relatively small range, the price movement in a stock to benefit a previously established derivatives position.

¹⁴ See H.R. Rep. No. IFC-3, 96th Cong., 1st Sess. at 189-91 (Comm. Print 1978) ("Options Study").

¹⁵ See Securities Exchange Act Release No. 17237 (October 22, 1980), 45 FR 71454 (October 28, 1980) (order approving File Nos. SR-PSE-80-15, SR-Amex-80-23, and SR-Phlx-80-21) ("1980 Release").

¹⁶ See Securities Exchange Act Release No. 19975 (July 15, 1983), 48 FR 33389 (July 21, 1983) (order approving File Nos. SR-PSE-83-09, SR-Amex-83-05, and SR-Phlx-83-04) ("1983 Release").

¹⁷ To be eligible for the 4,000 contract limit an underlying security was required to have had either (i) trading volume of at least 20 million shares during the most recent six month trading period; or (ii) trading volume of at least 15 million shares during the most recent six month trading period and at least 60 million shares currently outstanding. All other options not meeting these requirements were subject to the 2,500 contract limits.

the proposed 25,000 contract limit will require that the underlying security must have at least 300 million shares outstanding with 75 million shares traded in the past six months, or have 100 million shares traded in the past six months. To qualify for the proposed 20,000 contract limit, the underlying security must have at least 240 million shares outstanding with 60 million shares traded in the past six months, or have 80 million shares traded in the past six months.

In addition to the proposed 25,000 and 20,000 contract tiers, the Exchanges are also proposing to expand the equity hedge exemption. Under this proposal, the maximum allowable position, after exempting from the base limit specified positions where the option contract is hedged by 100 shares of stock or securities convertible into stock, will be three times instead of twice the standard or base limit currently provided.

B. Discussion

The Commission finds that the proposed rule changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to the national securities exchanges, and, in particular, with the requirements of Section 6(b)(5).²¹ Specifically, the Commission believes that the proposed addition of position and exercise limit tiers of 25,000 contracts and 20,000 contracts for qualifying equity options, and the proposed expansion of the equity hedge exemption to three times the standard or base limit will accommodate the needs of investors and market participants. The Commission also believes that the proposed rule changes will increase the potential depth and liquidity of the equity options market as well as the underlying cash market without significantly increasing concerns regarding intermarket manipulations or disruptions of the market for the options or underlying securities. Accordingly, as discussed below, the rule proposal is consistent with the requirements of Section 6(b)(5) that exchange rules facilitate transactions in securities while continuing to further investor protection and the public interest.

In approving the increased limits, the Commission recognizes that securities with active and deep trading markets, as well as with broad public ownership, are more difficult to manipulate or disrupt than securities having less active and deep markets and having smaller public floats.²² The proposed

additional position and exercise limit tiers recognize this by seeking to minimize the restraints on those options classes that can accommodate larger limits without significantly increasing manipulation concerns.²³ In particular, the proposed limit of 25,000 contracts and 20,000 contracts for options on the most actively traded, widely held securities, permits the Commission to avoid placing unnecessary restraints on those options where the manipulative potential is the least and the need for increased positions likely is the greatest. Accordingly, the Commission believes that the additional position and exercise limit tiers and the expanded equity hedge exemption is warranted.

The Commission believes that the proposed additions to the Exchanges' position and exercise limit tiers and increased hedge exemption appear to be both appropriate and consistent with the Commission's gradual, evolutionary approach. There are no ideal limits in the sense that options positions of any given size can be stated conclusively to be free of any manipulative concerns. The Commission, however, is relying on the absence of discernible manipulation problems under the current framework as an indicator that the proposed additional limit tiers and the expanded hedge exemption is justified.

The Commission does not believe that the addition of the two new higher limit tiers and the expanded hedge exemption will have any adverse effects on the options markets. In approving the two-tiered system in 1983, the Commission stated that it did not believe that requiring traders to keep track of two limits rather than one was burdensome or confusing or would lead to accidental violations.²⁴ The Commission does not

(1) A minimum of 7 and 6.3 million shares outstanding, respectively, which are owned by persons other than "insiders," as defined in Section 16 of the Act; (2) a minimum of 2,000 and 1,600 shareholders, respectively; (3) trading volume of at least 2.4 and 1.8 million shares, respectively, during the past twelve months; (4) for an original listing, the market price per share of the underlying security must have closed at or above \$7.50 during the majority of business days over the preceding three months; and (5) to maintain its listing, the market price per share of the underlying security must have closed at or above \$5 during the majority of business days over the preceding six months.

²³ The Commission continues to believe that proposals to increase position and exercise limits must be justified and evaluated separately. After reviewing the proposed exercise limits, along with the eligibility criteria for the two new tiers, the Commission has concluded that the proposed exercise limit additions do not raise manipulation problems or increase concerns over market disruption in the underlying securities.

²⁴ In this regard, the Commission notes that the Exchanges routinely, and on a continuous basis, review the trading characteristics of the underlying stocks to determine the appropriate position and exercise limit tiers for the option classes.

believe that a change from the current three tiers to five tiers should change this conclusion. Similarly, as the Commission views the expansion of the equity hedge exemption as consistent with its steady progression in this area, the enactment of this portion of the proposed rule changes should not prove difficult to implement or cumbersome to monitor.

The Commission believes that although position and exercise limits for options must be sufficient to protect the options and related markets from disruptions by manipulations, the limits must not be established at levels that are so low as to discourage participation in the options market by institutions and other investors with substantial hedging needs or to prevent market makers from adequately meeting their obligations to maintain a fair and orderly market. In this regard, the Exchanges have noted that customers and member firms view the current position and exercise limits for certain options classes as too low. The Commission believes that the Exchanges' proposals are a reasonable and appropriately tailored effort to accommodate the identified needs of options market participants. In this regard it is important to note that the proposals only add higher position and exercise limit tiers for classes of options overlying the most liquid stocks. As a result, the proposals affect only a small number of equity option classes that are traded on the Exchanges.

From 1988 through 1990, the Commission approved pilot programs proposed by the Exchanges which provided exemptions from position limits for certain fully hedged equity option positions.²⁵ The pilot programs created an exemption from equity option position and exercise limits for accounts that had established one of the four most commonly used hedged positions.²⁶ Under this exemption, the maximum position limit (including the allowable exemptions) could not exceed twice the established option position limit.²⁷

²⁵ See Securities Exchange Act Release Nos. 25811 (June 20, 1988), 53 FR 23821 (June 24, 1988) (order approving File No. SR-PSE-88-09); 25738 (May 24, 1988), 53 FR 20201 (June 2, 1988) (order approving File Nos. SR-Amex-87-13 and SR-Phlx-87-37); and 27786 (March 8, 1990), 55 FR 9523 (March 14, 1990) (order approving File No. SR-NYSE-89-09) ("Pilot Approval Orders").

²⁶ The four hedged positions are: (1) long stock and short call; (2) long stock and long put; (3) short stock and long call; and (4) short stock and short put.

²⁷ In May 1995, after several extensions, the Commission granted permanent approval to the Exchanges' hedge exemption pilot programs. See Securities Exchange Act Release No. 35738 (May 18, 1995), 60 FR 27573 (May 24, 1995) (order

²¹ 15 U.S.C. 78f(b)(5) (1988).

²² The Commission notes that the quantitative options listing and maintenance standards require:

The Exchanges currently propose to increase the hedge exemption to three times the applicable position limits. According to the Exchanges, as institutional accounts are unable to fully hedge their stock holdings due to the restrictive limits, investors are unnecessarily forced to keep a portion of their portfolio at risk. The Commission believes that the Exchanges' proposal to expand the hedge exemption is an appropriate method to accommodate the identified needs of options market participants. By increasing the hedge exemption, the Commission believes, large hedge funds and institutional accounts will be provided with the means necessary to adequately hedge their stock holdings without adding risk to the options market.

Lastly, the Commission notes that despite an appreciable growth in equity options trading and the sophisticated and automated surveillance procedures employed by the Exchanges, the last change in position limits occurred in 1993. Based on the Exchanges' experience, the Commission believes that the proposed increased hedge exemption and additional limit tiers should result in little or no additional risk to the marketplace.²⁸

The Commission finds good cause to approve the proposed rule changes prior to the thirtieth day after the date of publication of notice of filing thereof in the Federal Register. Specifically, by accelerating the approval of the Exchanges' rule proposals, the Commission is conforming the Exchanges' position and exercise limits with those levels recently approved for the CBOE.²⁹ Accelerated approval of the proposed rule changes will thereby provide for the desired uniformity of the exchanges' position and exercise limits as well as hedge exemption rules. Any other course of action could lead to unnecessary investor confusion. In addition, the CBOE's proposal was noticed for the entire twenty-one day comment period and generated no negative responses.³⁰ Accordingly, the

Commission believes that it is consistent with Section 6(b)(5) of the Act to approve the proposed rule changes on an accelerated basis.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) ³¹ of the Act that the proposed rule changes (File Nos. SR-NYSE-95-31, SR-PSE-95-25, SR-Amex-95-42, and SR-Phlx-95-71) are hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.³²

Margaret H. McFarland,

Deputy Secretary.

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BILLING CODE 8010-01-M

[Release No. 34-36407; File No. SR-NYSE-95-32]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the New York Stock Exchange, Inc., Relating to Additions to the "List of Exchange Rule Violations and Fines Applicable Thereto Pursuant to Rule 476A."

October 23, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on October 1, 1995 the New York Stock Exchange, Inc. ("NYSE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The rule change revises the "List of Exchange Rule Violations and Fines Applicable Thereto Pursuant to Rule 476A" by adding order entry and cancellation procedures for market-at-the-close ("MOC") orders on non-expiration days (expiration day procedures for MOC orders are already included) and for limit-at-the-close ("LOC") orders for expiration and non-expiration days. The rule change also

more fully in the CBOE Approval Order, *supra* note 7.

³¹ 15 U.S.C. § 78s(b)(2) (1988).

³² 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1).

amends the NYSE's Minor Rule Violation Enforcement and Reporting Plan ("Plan") to include these entry and cancellation procedures for MOC and LOC orders.² The Exchange believes that a violation of the above-named rules merit possible imposition of a fine under Rule 476A procedures.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Rule 476A³ provides that the Exchange may impose a fine, not to exceed \$5,000,⁴ on any member,

² See Letter from Daniel Parker Odell, Assistant Secretary, NYSE, to Glen Barrentine, Team Leader, Division of Market Regulation, SEC, dated October 1, 1995.

³ Rule 476A was approved by the Commission on January 25, 1985. See Securities Exchange Act Release No. 21688 (January 25, 1985), 50 FR 5025 (February 5, 1985). Subsequent additions of rules to the Rule 476A Violations List were made in Securities Exchange Act Release Nos. 22037 (May 14, 1985), 50 FR 21008 (May 21, 1985); 23104 (April 11, 1986), 51 FR 13307 (April 18, 1986); 24985 (October 5, 1987), 52 FR 41643 (October 29, 1987); 25763 (May 27, 1988), 53 FR 20925 (June 7, 1988); 27878 (April 4, 1990), 55 FR 13345 (April 10, 1990); 28003 (May 8, 1990), 55 FR 20004 (May 14, 1990); 28505 (October 2, 1990), 55 FR 41288 (October 10, 1990); 28995 (March 21, 1991), 56 FR 12967 (March 28, 1991); 30280 (January 22, 1992), 57 FR 3452 (January 29, 1992); 30536 (March 31, 1992), 57 FR 12357 (April 9, 1992); 32421 (June 7, 1993), 58 FR 32973 (June 14, 1993); 33403 (December 28, 1993), 59 FR 641 (January 1, 1994); 33816 (March 25, 1994), 59 FR 15471 (April 1, 1994); 34230 (June 17, 1994), 59 FR 32727 (June 24, 1994); and 34327 (July 7, 1994), 59 FR 35956 (July 14, 1994).

⁴ Fines imposed pursuant to Rule 476A in excess of \$2,500 are deemed final, and therefore are subject to the reporting requirements of section 19(d)(1) of the Act and Rule 19d-1(c) thereunder. Pursuant to Rule 19d-1(c)(1), and SRO is required to file promptly with the commission notice of any "final" disciplinary action taken by that SRO. Any disciplinary action taken by an SRO for a violation of an SRO rule, which has been designated as a minor rule violation pursuant to a Commission approved plan, however, shall not be considered "final" if the sanction imposed consists of a fine not exceeding \$2,500 and the sanctioned person does not seek an adjudication, including a hearing, or

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approving File Nos. SR-NYSE-95-04, SR-PSE-95-05, SR Amex-95-13, and SR-Phlx-95-10).

²⁸ The Commission notes that to the extent the potential for manipulation increases because of the additional tiers and expanded hedge exemption, the Commission believes the Exchanges' surveillance programs will be adequate to detect as well as to deter attempted manipulative activity. The Commission will, of course, continue to monitor the Exchanges' surveillance programs to ensure that problems do not arise.

²⁹ See CBOE Approval Order, *supra* note 7.

³⁰ In response to the CBOE's proposal, the Commission received two comment letters. Both comment letters were generally supportive of the CBOE's proposed rule change, and are described